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MASTER OF MILITARY STUDIES

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**TITLE: WORLD HEGEMONY OR MARITIME HEGEMONY?**

SUBMITTED IN PARTIAL FUFILLMENT OF  
THE REQUIREMENTS FOR THE DEGREE OF  
MASTER OF MILITARY STUDIES

**AUTHOR: Major Nathan J. Hill, USMC**

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## Executive Summary

**Title:** World Hegemony or Maritime Power?

**Author:** Major Nathan J. Hill, USMC

**Thesis:** As the current foundation for the maritime system, the United States must focus on the maritime system's health rather than maintenance of U.S. hegemony. The United States should encourage China's responsible rise by reemphasizing state sovereignty rights within a just international system and encouraging participation in the global economy.

**Discussion:** Since the end of the Cold War, the U.S. has been preeminent; however, a broader view reveals that the United States is simply the strongest actor within a maritime system that has been functioning globally for five centuries. Many states have risen and fallen within the context of this maritime system and most survive today. The maintenance of U.S. hegemony should not be the focus of any U.S. foreign policy; instead, the preservation of the maritime system should be the focus of U.S. foreign policy. The recent growth of the Chinese economy has fueled discussion of how the United States should react to a rising China. The United States should embrace China's rise by encouraging its international economic participation and reinforcing state sovereignty.

A stable, growing China is good for the maritime system and for the international security system. Under its current economic system, China is destined for economic failure, since only greater liberalization of Chinese economic practices will preclude economic failure. The United States should continue to work for China's integration with the world financially and economically. As China's economic freedom expands, so will Chinese chances for long-term stability.

Reinforcing state sovereignty will strengthen U.S. policy goals while restraining China from becoming a threat to the maritime system. A policy of respecting states rights over human rights will define objective limits for the use power by any nation. Further, it provides consistent feedback between the United States and China so that their diplomatic relationship can remain steady as the world shifts from U.S. hegemony.

**Conclusion:** U.S. foreign policy which focuses on the preservation of hegemony is flawed. The United States should embrace the rise of China to provide an environment where China may participate in free markets at a pace that will make China stable as it gains strength. Further, the United States should reinforce state sovereignty in the international system to reinforce a post-modern system recently resistant to blocs and major balance of power alliances.

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### *Introduction*

Since the end of the Cold War, U.S. hegemony has been the focus of much debate. The recent U.S. withdrawal from Iraq and the impending cessation of the U.S. mission in Afghanistan has shifted America's focus to the Pacific.<sup>1</sup> The academic battle over a declining United States continues. China is currently viewed as the most likely challenger to U.S. hegemony. There are two major debates. The first debate focuses on U.S. hegemony and whether or not it should continue or be pursued at all. The second considers how the United States should deal with a rising China. One position claims that the United States should resist China's rise and a return to bi-polar international politics. The second, and more reasonable, position posits that the United States should embrace China's rise and facilitate it to varied degrees.

The rise of China will challenge U.S. hegemony in the Pacific in the short-term, and may eventually develop into a counter-balance for the United States; however, America did not seek hegemony, and should not fear its loss. Rather, the United States should seek ways to maintain the international maritime system and ensure its preeminence. China's rise may test the United States and the international system, but China relies on the maritime system. China's rise also relies on stable economic growth. Although China appears to be a strong competitor in the world, Chinese internal economic weakness and centralized governance could foster internal crisis which would threaten the international system. As the current foundation for the maritime system, the United States must focus on the maritime system's health rather than maintenance of U.S. hegemony. The United States should encourage China's responsible rise by reemphasizing state sovereignty rights within a just international system and encouraging increased participation in the global economy.

### *Context: The International System*

The United States has been *a* superpower since the end of World War II (WWII) and *the* power in the two decades since the conclusion of the Cold War. The United States and its allies developed and implemented the international system that has flourished since WWII. But this international system emerged within the *maritime system* established by the Dutch in the late 1600s.<sup>2</sup> Since its inception, the maritime system has endured. Globalization has not changed the maritime system, but globalization has increased the volume of commerce using the maritime system. Great Britain and the United States have contributed the majority of the requirements to sustain the maritime system.<sup>3</sup> However, their respective periods of naval hegemony are complimented by periods of time where great powers collaborated on security within the maritime system.

The maritime system has fueled international commerce and human progress for four centuries. More than the current international state system embodied in the United Nations (UN), the maritime system is responsible for the world having a measure of stability, commercial opportunity, and peace. China's expectation of the international system and its national understanding of sovereignty are important to understanding China's world view. Examining the evolution of the international system through the lens of Chinese expectations and perceptions reveals China's value of sovereignty and justice in an international system. Focusing on common economic interests and sovereignty will encourage Chinese participation in the system.

The Treaty of Westphalia defined state sovereignty outside the boundaries of a specific religion. After state sovereignty was no longer an issue of religion and god-given right, state self-interest reigned supreme. Self-interest subsequently facilitates commerce and economics in the international market. Alliances and imperial warfare dominated Europe's political landscape as

great powers constantly worked to expand their power and influence at the cost of another sovereign. In China rulers have relied heavily on the *mandate of heaven*, which loosely parallels the European history religious authority for the state. Thus, sovereignty remains important to China; however, a system based solely on sovereignty can lead to regular instances of war -- exemplified by Europe after Westphalia - justice for all participants is also key.

The Congress of Vienna convened to develop a stable international system of sovereign states. The Congress created a balance of power system resulting in the Concert of Europe. This nascent international system reinforced state sovereignty, provided methods of countering great powers, and offered a method of conflict resolution prior to the outbreak of war. Included in these countries was France, whose history of conquest throughout Europe was a catalyst for the Congress of Vienna. Participants in this system perceived it as a *just* system. Henry Kissinger notes, "An international order which is not considered just will be challenged sooner or later."<sup>4</sup> Currently, China is wary of the international system. China (the world's third largest economy)<sup>5</sup> remains outside the "Group of Eight" (G8) a conference of the world's other eight largest economies.

China has a history of being treated unjustly by Western allies and foes alike. Additionally, China surveys the world's great powers and sees the United States attempting to isolate China economically and politically.<sup>6</sup> China was ostracized or humiliated under imperialism and their exclusion from the G-8 antagonizes Chinese fears of a new imperialism.<sup>7</sup> China's exclusion from the G-8 undermines Chinese confidence in the current system's justice. Understanding these Chinese perceptions are key to formulating a sound policy toward China.

Great powers operating within maritime system have waxed, waned, and been removed from power, but the maritime system has evolved. Currently, the international system relies on

sea power to facilitate global commerce and, in a smaller sense, to allow for competition and interdependence between states, corporations, and individuals. The inclusion of China as an international economic leader recognizes reality. Including China in the G-8 may allay historical, Chinese fears of imperialism, and economic and political isolation. China will continue to participate in the international system as long as its sovereignty is respected and the system is proven just.

World commerce depends on sea lanes and ports embarking and disembarking the majority of the world's goods. The freedom of access and security of these ports maintain price stability which, in turn, sets a foundation for international investment and wealth. Global finance and communications networks rely on underwater fiber optic cables to transmit phone calls, internet content, and financial transactions. The 2012 Defense Strategic Guidance states,

"To enable economic growth and commerce, America, working in conjunction with allies and partners around the world, will seek to protect freedom of access throughout the global commons – those areas beyond national jurisdiction that constitute the vital connective tissue of the international system. Global security and prosperity are increasingly dependent on the free flow of goods shipped by air or sea."<sup>8</sup>

Sea power facilitates the security of the maritime system. World powers such as the United States, Great Britain, Germany, Holland, Japan, Italy, Russia, China, and France have contributed sea power since its establishment.

Today, regional partnerships build economic consensus and develop markets across the globe. The application of U.S. power in regional alliances communicates to other regional partners that regional interests are U.S. interests and regional security issues are U.S. security issues. After the United States joined the East Asian Summit (EAS), President Obama used his inaugural participation to focus on maritime security.<sup>9</sup> As the United States pivots toward the Pacific the maintenance of the maritime system is key to U.S. policy in a region with a rising superpower.

Several world leaders have labeled China a "superpower." This increase in world status is potentially fraught with problems. Saying that a nation is a superpower and that nation acting like a superpower are different. China's rise is not isolated, rather it is occurring in a region with several aspiring powers. Australia, India, Japan, Singapore, South Korea, and Russia are assuming powerful roles in the global economy. Iran continues to develop nuclear weapons in an area of the world that currently deals with a nuclear capability in North Korea, China, India, Pakistan, and Russia. Conventional military power is also prevalent in the region: North and South Korea, Australia, Iran, India, Pakistan, and Russia maintain large, modern conventional forces. As China rises, so does the opportunity for conflict in the Pacific. Stability in the Pacific will minimize the potential for conflict in the region.

Confrontation between the United States and China is not in the interest of the United States or the maritime system. Rather than pursuing a short-term, politically advantageous confrontation, the United States should determine what is best for the maritime system and establish a policy which develops the maritime system rather than attempting to shape states with varied agendas.

#### *Historical Framework*

Chinese historical perceptions of the United States are generally favorable. China was introduced to the United States while the United States was completing Manifest Destiny. The main U.S. concerns were commercial and economic ties to China; however, the aftermath of WWII and the Maoist takeover of China created a perception of the United States as self-centered and arrogant.

Participation in the UN compels China to operate within the international structure. The Chinese perspective on the international system, however, is fundamentally different. The West's

history of imperialism, and the international system's modern emphasis on human rights and the role of individuals in international relations are symptoms of a fundamental difference between U.S. and Chinese view of the international security system - state sovereignty.

Chinese history reflects the effects of imperialism. The last Chinese dynasty serves as an example of Melian realism. The Western powers did what they would, while China endured what it must. Although China did what it must, it was not happy about its status in the world. Looking for an alternative to imperialism, China turned to the United States. The Chinese saw the United States as a potential partner in modernization due to relative U.S. weakness compared with other imperial powers. China viewed U.S. power as a balance to the imperial European powers who were exploiting their country.<sup>10</sup> China did not see the United States expanding into the Pacific;<sup>11</sup> however, this positive view of the United States deteriorated after World War I (WWI).

China's first contact with the United States occurred in 1784 during a commercial shipping visit.<sup>12</sup> The relationship between the two nations was amicable and centered on trade for seven decades. In 1844, the Wangxia Treaty initiated diplomatic relations between the two countries and "promoted trade between China and the United States by granting Americans access to four new ports, lowering tariffs on U.S. goods, and giving extraterritorial rights to the United States. The treaty was viewed as not only unequal on trade terms but also a violation of China's sovereignty."<sup>13</sup> Additionally, the treaty was signed when imperial powers came to China and established extraterritorial ports through which they could conduct their global business. Western powers and the Japanese were using ports such as Canton, Shanghai, and Hong Kong to increase the wealth of the Imperial powers at the expense of the Chinese.

China's view of the United States deteriorated during the Treaty of Paris. China viewed U.S. policy in general, and President Wilson's actions in particular, as duplicitous. The outcome

of the Paris Peace Conference turned Chinese public opinion against the United States by 1921.<sup>14</sup> A victorious partner in the war, China felt betrayed by President Wilson's empty promises to restore Chinese territory. For two decades, the Chinese watched as their interests were constantly subjugated to imperial appetites in Japan and Europe. For example, prior to WWI China was concerned about the German infringement of its sovereignty via treaty. Following the Treaty of Paris, China was appalled and perplexed as annexed German territory was instead given to Japan. Japan's claim to Chinese territory was imperial, not legal. Their sovereignty ignored, China continued to feel insecure in the emerging international system.

The United States, too, was increasingly viewed as an imperial power. America's actions irritated both Sun Yat-Sen, leader of the Chinese nationalist movement, and Chen Duxiu, a founder of the Chinese Communist Party (CCP).<sup>15</sup> However, as Imperial Japan increased its sphere of influence throughout the 1920s and 1930s, the United States re-gained Chinese favor through support for the ruling Kuomintang (KMT).

During WWII, the United States was an ally of China. A common enemy and some shared political values with the ruling KMT provided common ground. However, this support also sowed the seeds of the destruction of the Sino-American relationship after WWII. Chairman Mao closed WWII in alliance with the United States and the KMT, but that alliance provided only short-term stability. The CCP painted the United States, again, as an imperial power using the KMT as a proxy for exploitation of Chinese sovereignty. When the CCP terminated the power-sharing talks at the conclusion of WWII, violence ensued.

Chairman Mao's vitriolic speech toward the United States was effective and enduring. Railing against the United States rallied the public to his cause while further isolating China from the West. The CCP steadily defeated the corrupt and inept KMT, feeding an unfavorable

image of an imperial United States. Following the retreat of the KMT to the island of Formosa, the United States continued to back their ally. From the Chinese perspective, after the KMT abandoned the Chinese mainland, the United States violated Chinese sovereignty in two ways.<sup>16</sup> First, the United States continued support for a regime that had lost the *mandate of heaven*. Second, the United States contributed support to a political movement which was occupying a piece of territory that was a recent and prominent point of contention for Chinese public conscience. These factors, combined with Chairman Mao's mastery of political speech, alienated the United States and promoted a negative view of the United States.

Current tension over state sovereignty is evident in international concern over China's indifference to human rights abuses within its own borders and by countries with whom China does business. The Chinese Constitution states,

"The future of China is closely linked to the future of the world. China consistently carries out an independent foreign policy and adheres to the five principles of mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence in developing diplomatic relations and economic and cultural exchanges with other countries."<sup>17</sup>

China views human rights issues largely as internal state matters, while the international community sporadically applies pressure to states through the UN and other international organizations in an effort to align state behavior with an increasingly-subjective international standard of human rights. From a Chinese perspective, the imposition of Western human rights standards on the rest of the world amounts to little more than modern-day imperialism.

In spite of China's rise, U.S. hegemony endures. China's rise does not threaten the global system, but there are aspects of the global system which trouble China's leadership. The United States must understand China's historical perspective on the United States, the Chinese concept of state sovereignty, and the world's history of meddling Chinese internal affairs. The United States must not threaten China's sovereignty as China participates in the international system.

### *Possibilities: Sovereignty*

China's concept of sovereignty and its place in the international system differ from contemporary Western concepts. Western institutions have eroded national sovereignty in favor of individual human rights. In contrast, Chinese view the state as the main international actor in which the good of the many trumps individual considerations.<sup>18</sup> The United States should reinforce sovereignty because it provides long-term stability to the maritime system.

Human rights are a main point of contention between these two views of the international system. Western standards, heavily influenced by American Presidents Wilson and Franklin D. Roosevelt, are built on the idea of individual equality and subordination of state interests to individual rights. Individuals have importance in a Western view of the international system. Conversely, Chinese culture views the needs of the state as superior to those of the individual.<sup>19</sup>

"The Chinese understanding is that the state is the only actor that counts in world affairs, that state sovereignty and national interest are the foundation stones of the system of nation-states, and that international relations should be based on the equality of states and non-interference in each other's internal affairs."<sup>20</sup>

The Chinese perspective on individual rights notes that individual rights' subordination to the state makes individual rights an internal Chinese issue. The Chinese process for dealing with other states' human rights issues is leaving it up to the individual, sovereign state.

The situation in Darfur provides an excellent example of how China operationalizes this view of human rights as an internal issue. The Chinese have heavy economic interests in Sudan despite Sudanese human rights violations in Darfur. China's lack of a response to the events of Darfur frustrated the international community, which viewed Sudanese human rights violations as an issue which China could impact; however, Chinese policy valued the material benefits of this relationship, state sovereignty, and the needs of the state over the individual. Some may argue that Chinese deference to Sudanese sovereignty is merely cover for their commercial

interests; however, China is displaying the behavior of a totalitarian state. China has no political interest in Sudanese human rights.

Centralized government depends on a system which rewards those in power and creates an incentive within the party in power to maintain the status quo. China has been ruled by the Communist Party since the end of the Chinese Civil War in 1949. The Party will do whatever it must to maintain its hold on power.<sup>21</sup> Fractures in its power base may cause erratic behavior on the international stage. The United States must pursue a foreign policy which accounts for this instability. Rather than influencing internal Chinese affairs, the United States should reinforce the international system and invite China deeper into that system.

Territorial issues are a difficult matter in China by design. The Chinese historical narrative describes the quest for unity as a multi-millennium struggle to unite the Chinese people. Following the unification of China in 221 BC, the dynastic period of China commenced. During this time, the nation was autonomous for the better part of twenty-one centuries. The island of Formosa, later Taiwan, joined this autonomous region during the Qing Dynasty in 1683. Taiwan was added to the Chinese nation about the time that Christopher Columbus was discovering the New World. Taiwan has changed hands many times since this time. Later in the Qing Dynasty, the Chinese forfeited Taiwan to the Japanese. Unsuccessful Chinese efforts to regain Taiwan occurred while Western powers were annexing Chinese territory for ports and commercial interests.

Taiwan's national importance is expressed in the Constitution of the People's Republic, which says that "Taiwan is part of the sacred territory of the People's Republic of China. It is the inviolable duty of all Chinese people, including our compatriots in Taiwan, to accomplish the great task of reunifying the motherland."<sup>22</sup> Mao's hatred of the West and the United States are

manifest in this statement despite little historical evidence of Chinese sovereignty over Taiwan. In this light, Taiwan is a manufactured issue targeting Chinese national pride and serving as their example of Western imperialism expressed through U.S. hegemony. However, because of its artificial nature international institutions which re-emphasize sovereignty do not risk Chinese reaction over Taiwan.

Hegemony is antithetical to the current Chinese constitution, but not to its historical role.<sup>23</sup> Thus, as the United States watches China's rise with concern, U.S. hegemony concerns China. U.S. hegemony is particularly difficult for China because the United States is currently capable of not only leading a Pacific alliance, but also a world alliance against China. Even though the likelihood of such an alliance is minimal, a foreign policy which focuses on maintenance of hegemony will only increase tension and lead the U.S. to ignore a potential consensus issue - the global economy.

#### *Possibilities: Economics*

In order for an economy to function optimally, it requires free participants in a free market. Sino-U.S. debt is not the key issue in Sino-U.S. relations, but rather is a small aspect of a larger problem. The major problem concerning Sino-U.S. relations concerns internal Chinese economic weakness. Currently, China is fragile, burdened with massive debt between the government and its people and enslaved to the foreign investment required to continue its consistently spectacular GDP growth. The United States must encourage Chinese integration in the global economy. Free markets will pressure China to liberalize in a method which is already part of China's strategy. The United States and the maritime system will reap the benefit of stability from an economically strong China.

The United States should be focused on setting an international economic environment that encourages participation in markets and increased economic freedom. The expansion of economic freedom *may* lead to an expansion of political freedom. Within a free market system, parties in power choose to loosen their grips on capital because the increase in economic growth stabilize their political system and their own hold on power. The alternative is a power base that sees their government as corrupt and obstructionist. Such a power base will eventually dictate similar terms to the government. Rather than attempting to change a system of government from outside, the United States should reinforce sovereignty on the international stage and use economic incentives to maintain stability in the world while encouraging Chinese liberalization.

The United States is acting as if it is threatened by the rise of China and recently sharpened its message in the Pacific region while attempting to emphasize hegemony.<sup>24</sup> "Top Chinese officials have for a substantial time clearly perceived...that the tougher line [from the United States] has now won out."<sup>25</sup> If the United States were to embrace China's rise, U.S. power might diminish in some areas, but the system will strengthen. US interests in the expansion of human rights, economic liberalization, and political freedom may be stifled in the short term, but international maritime law will be strengthened. The principles of Grotius are more easily implemented in an international system that focuses on sovereignty.

Stability in China will facilitate Chinese plans for economic modernization which implements free trade. Free trade is a non-threatening means of liberalization that will yield greater long-term effects than any human rights pressure will yield in the short term. Further, free trade is a shared Sino-US interest, human rights is not a shared interest. Globalization is not a zero-sum game. The benefits of China's rise are greater than the costs of forcefully maintaining U.S. hegemony in the Pacific.

As the United States encourages stability and growth in the Pacific, security requirements will be minimized. Walter Russell Mead describes how the United States might realize the advantage of their geographic position and naval capability through a comparison of other periods of history, noting that "[t]he offshore balancing power that is interested in an open global trading system poses less threat and offers more opportunity to more partners than traditional land powers can usually match."<sup>26</sup> Rather than attempting to maintain broad international hegemony, the United States would be wise to focus on maintaining maritime hegemony. While the United States enjoys hegemony on the seas, it should continue to encourage the growth of the international system.

The world's most populous nation, China is "the dominant maker of computers and consumer electronics" and its "growing venture capital market is now the second largest in the world."<sup>27</sup> China has been growing at amazing rates since 1977. Gross Domestic Product (GDP) growth has been 7% or higher during the past 15 years.<sup>28</sup> Moreover, China's GDP is projected to grow at much greater rates than the United States.<sup>29</sup> China ranks seventh in gold reserves,<sup>30</sup> has recently become the number one gold producer,<sup>31</sup> and is the number one holder of foreign exchange currency.<sup>32</sup> China has a large labor market and a lower cost of living than the United States. China will continue to provide cheap labor and affordable goods to world markets, but China has expanding requirements. In the next two decades, China will demand more oil and water, as their country modernizes its industry and its way of life, while the Chinese people demand continued economic growth.<sup>33</sup>

The Chinese economy, the third largest in the world, is critical to U.S. strategy toward China. Although it participates in the international market economy, it is not a market economy. The Chinese economy is highly centralized and its money supply is a lever for government to

pull when it requires specific market responses within China. The Chinese government coordinates interest rates, individual loans, and the money supply in order to elicit moderate inflation while manufacturing GDP growth.<sup>34</sup> Chinese growth draws international investment and further inflates the Chinese economic position. However, these policies are unsustainable and expose a major weakness to China's world position.

Although the Chinese government controls the money supply, the government is also the country's biggest debtor. The Chinese people invest their money in a government-controlled banking system because it is the best monetary investment in China. Although the Chinese stock market exists, the effect of government control of capital, the money supply, and infrastructure development makes the Chinese stock market a massive insider political game. Since the liberation of property rights, real estate in China is experiencing a bubble.<sup>35</sup> High prices, difficulty in obtaining loans, and potential crisis from a bursting real estate bubble push the average Chinese citizen to a stable investment, currently found in Chinese banks.

Across the Pacific, the U.S. narrative focuses on U.S. debt to China; however, the American public does not understand the other side of China's balance sheet. The Chinese balance sheet displays that China is indebted to its people. China likes to show off its home [GDP growth] in Bel Air, but China doesn't like to let anyone see the mortgage [consumer debt] or their pay stubs [foreign direct investments].

Rather than responding to a market requirements, state-owned corporations are investing based on the programming of a central authority, government contracts or political connections.<sup>36</sup> This power equals control of a very complex combination of Keynesian and communist wealth creation. Power brokers within the Chinese government do not *want* to give up power, indeed they *cannot* give up power.

The World Bank defines domestic credit as "financial resources provided to the private sector, such as through loans, purchases of nonequity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries these claims include credit to public enterprises."<sup>37</sup> China is a country which includes public enterprises in these claims. The CIA fact book lists China's stock of domestic credit at \$8.868 trillion at the end of 2010 compared with the United States stock of domestic credit at \$32.610 trillion at the end of 2009.<sup>38</sup> The World Bank lists Chinese domestic credit to private sector at 130% of GDP and US domestic credit to private sector at 202% of GDP.<sup>39</sup> While these numbers seem to show that China is in better shape than the US, the trend is different. Since 1996, both countries have increased their stock of domestic credit as a percentage of GDP about 30%; however, since 2006, the United States has reduced this number by 2% while China has seen an increase of 15%.<sup>40</sup> China is continuing to subsidize its growth when the United States, in spite of its huge stimulus package, is working against that trend.

Victor Shih notes, in his lecture *Awash in Debt*, "The Chinese financial system is transferring 50% of GDP between individual households and corporations."<sup>41</sup> However, the Chinese government doesn't want to raise interest rates as inflation would fall. The Chinese government is pursuing a policy of managed inflation vs. GDP growth. This type of growth is unsustainable because it is reliant on foreign investment.

Foreign investment in China drives a large portion of GDP growth. If foreign investment is removed because of a lack of capital to invest, political unrest, or ideological factors, growth will suffer accordingly. Chinese leadership uses foreign direct investment to stimulate GDP growth. A group studying China's Advanced Technology Product (ATP) sector notes, "The emergence of China as a major supplier to the U.S. advanced technology products market results

from the combination of the fragmentation of global production, China's comparative advantages, and Chinese Government preference policies to processing trade and foreign invested enterprises.<sup>42</sup> China manipulates inflation through control of the money supply. The current Chinese government employs measured inflation to ensure stability and to enrich its politically connected elites. A threat to the Chinese economy is a threat to Chinese stability.

Chinese banks provide a meager return on investment. The Chinese government is consistently making decisions on investment and infrastructure development with their citizen's savings. The government provides this money to state-owned owned corporations via loans.<sup>43</sup> If the central government were to fail, the banking system would fail, and the world would watch human history's largest run on national banks. Banks would be unable to provide the Chinese people their money, nor would they be able to provide anything to show for the loaned money. The maritime system would be adversely effected by economic instability affecting approximately 20 percent of the world's population.

Centralized governments make rational political decisions that are not necessarily rational economic decisions. Markets make decisions based on whether the risk of capital is worth the reward, while centralized governments make decisions based on politics. Consider the construction of a building for a corporation. In a free market society, the corporation must first have a need for a new building, have the capital, and have a plan to not only pay for the building but to have the building actually improve their overall financial position in a specific amount of time. In a centralized economic environment, a building is built because the government is encouraging the construction of buildings and someone with political connections to the power brokers has the expertise to erect the structure. The actual need for the building and the use of it following construction are not important.

Chinese economic growth could be stifled by a global currency crisis or by change in the maritime system that affected the capability of commerce to move via sea lanes. A decrease in economic growth would increase inflationary pressure on Chinese households and political pressure on the Chinese government. The global economy and China's political stability are linked. Sustained economic growth is a basic requirement for Chinese stability because it is a major requirement for the CCP to remain in power.

Faced with such a crisis China may attempt to reestablish economic growth using an alternative monetary regime, such as the gold standard, on its own or with key allies. This move would leverage its foreign currency holdings and gold reserves as the Chinese government reestablished modest inflationary growth.

Another potential response might see China seek hegemony on the Eurasian landmass with key states like Russia, Iran, North Korea, and Pakistan. This syndicate would serve as a challenge to the maritime system by maintaining commercial capability on the Eurasian continents. This association of countries would not be dependent on the sea for economic sustainment as the internal lines of communication would provide an alternative. In January, India agreed to pay Iran gold for oil,<sup>44</sup> China has expressed interest in the same possibility.<sup>45</sup> China has the assets to participate in a gold-for-oil exchange. If the current Chinese political elite are pressured economically, China may seek an alternative to the maritime system.

The United States and China have common interests and their economies are interdependent. Although positive opportunities exist for both nations, the possibility of conflict will increase as each state competes for resources. China is weak internally and the opportunity to provide an antithesis to the current U.S. thesis will create a bi-polar world. The United States

must reinforce sovereignty while strengthening international economic regimes to avoid this possibility. China must continue to have stability as it adapts its economic system to the world's.

#### *Policy Recommendation*

US policy which supports national sovereignty rights, and strengthens international economic organizations, will capitalize on the strengths of the international system, minimize the effect of the system's focus on human rights, and allay the concerns of Chinese political elites regarding pressure to change its authoritarian style of government. Walter Russell Mead describes how maritime powers have traditionally been successful, "Develop and maintain an open, dynamic society at home; turn the economic energy of that society out into world trade; protect commerce throughout the world and defend the balance of power in the world's chief geopolitical theaters; open the global system to others, even to potential competitors in time of peace; turn the system against one's opponents in war; promote liberal values and institutions whenever one can."<sup>46</sup> Because the United States cannot pressure the government of China to change its system of government the United States must promote liberal values where it can - through economic liberalization.

The United States should not be focused on China's rise, in particular. Because global stability does not require a hegemon, the United States should not focus on maintaining international hegemony, only maritime hegemony. U.S. hegemony is real in the short term; it is unclear that the United States or the maritime system will benefit from a U.S. policy which pursues long-term hegemony.

The UN is based in the concept of sovereignty. Article 2 of the UN Charter notes, "Nothing contained in the present Charter shall authorize the United Nations to intervene in matters which are essentially within the domestic jurisdiction of any state or shall require the

Members to submit such matters to settlement under the present Charter; but this principle shall not prejudice the application of enforcement measures under Chapter VII [Regional Arrangements]."<sup>47</sup> Sovereignty is a key issue for China. Sovereignty is not derived from the UN. Reinforcing sovereignty will increase the effectiveness of international institutions which can provide international pressure to maintain current borders and freedom of navigation. Bolstering sovereignty provides the international security system with concrete limits for Chinese expansion, protecting the long-term health of the international maritime system and the global commerce.

Chinese perspectives on human rights and sovereignty are different from some prevalent Western views on the subject. Continued international pressure on human rights violations in China or China's indifference toward business partners who are accused of human rights violations only serve as an incentive for China to look for alternatives.

International trade is vital to both China's export industry and the world's demand for goods. Peaceful economic competition serves as a way to influence China without conflict. If the United States strengthens international economic regimes, China's leadership will find it beneficial to be more economically dependent on the international community due to the stability provided by increased investment and corresponding growth.

In 2010, Secretary of State Clinton used the right approach. While participating in the ASEAN Regional Forum Secretary Clinton commented on the U.S. view of Chinese territorial ambitions in the South China Sea "affirm...[a] vital interest in freedom of navigation in this region and in keeping the region open for normal commercial activities."<sup>48</sup> This policy reinforces international law and blunts Chinese efforts to pursue selfish interests which might spark

conflict. In this case, freedom of navigation provides a means to reinforce state sovereignty while reemphasizing the United Nations' framework.

China's rise and a world without U.S. hegemony should not be feared. The United States will continue to be the hegemon of the maritime system; however, the maritime system is not a result of U.S. hegemony. The global system is dependent upon the writing of Hugo Grotius and the Law of the Sea. As long as the "unseen hand of the market," identified by Adam Smith, requires commerce via the sea, history shows the maritime system will endure in spite of what principle power is responsible for its security.<sup>49</sup> China's rise creates a more stable Pacific region if China is brought into the system and becomes responsible for some of the security its commercial activities enjoy. As its current leader, the United States can pressure the international system rather than challenging the state of China directly. The United States should maintain a balance in the region through a regular, visible presence in the Pacific which strengthens economic competition and security in the Pacific. A persistent, regular presence in the region will ensure US maritime hegemony and Pacific stability.

China appears to be a champion of growth and economic health, but due to their centralized economic and political planning they are poorly postured for long-term growth. A rising China will become a regional power. A stable China will remain an important member of the world community. While reinforcing sovereignty the United States should invite China to assume an active role in Pacific security and the global economy.

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<sup>48</sup> Kenneth Lieberthal, "The American Pivot to Asia," *Foreign Policy*, (December 21, 2011), [http://www.foreignpolicy.com/articles/2011/12/21/the\\_american\\_pivot\\_to\\_asia](http://www.foreignpolicy.com/articles/2011/12/21/the_american_pivot_to_asia) (accessed January 19, 2012).

<sup>49</sup> Walter Russell Mead, *God and Gold: Britain, America, and the Making of the Modern World* (New York: Alfred A. Knopf, 2007).